

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

Township of Niles
Berrien County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended March 31, 2006

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INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Township of Niles, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Niles, Michigan, as of March 31, 2006, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Niles, Michigan, as of March 31, 2006, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information and schedule of funding progress on pages 29 through 33 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Township of Niles has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

**Board of Trustees
Township of Niles, Michigan
Page 2**

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Township of Niles, Michigan's basic financial statements. The combining fund financial statements, as listed in the contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Township of Niles, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

September 5, 2006

BASIC FINANCIAL STATEMENTS

Township of Niles
STATEMENT OF NET ASSETS
 March 31, 2006

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 3,055,428	\$ 2,393,221	\$ 5,448,649
Receivables, net	366,281	374,555	740,836
Interfund balances	6,991	(6,991)	-
Total current assets	<u>3,428,700</u>	<u>2,760,785</u>	<u>6,189,485</u>
Noncurrent assets:			
Receivables, noncurrent	-	334,892	334,892
Capital assets, net of accumulated depreciation	<u>3,213,487</u>	<u>10,763,754</u>	<u>13,977,241</u>
Total noncurrent assets	<u>3,213,487</u>	<u>11,098,646</u>	<u>14,312,133</u>
Total assets	<u>6,642,187</u>	<u>13,859,431</u>	<u>20,501,618</u>
LIABILITIES			
Current liabilities - payables	<u>135,933</u>	<u>80,079</u>	<u>216,012</u>
NET ASSETS			
Invested in capital assets	3,213,487	10,763,754	13,977,241
Restricted:			
Cemetery	6,617	-	6,617
Public safety	688,595	-	688,595
Public works	24,613	-	24,613
Unrestricted	<u>2,572,942</u>	<u>3,015,598</u>	<u>5,588,540</u>
Total net assets	<u>\$ 6,506,254</u>	<u>\$ 13,779,352</u>	<u>\$ 20,285,606</u>

See notes to the financial statements

Township of Niles
STATEMENT OF ACTIVITIES
Year ended March 31, 2006

		<u>Program revenues</u>		
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
	<u>Expenses</u>	<u>services</u>	<u>grants and</u>	<u>grants and</u>
			<u>contributions</u>	<u>contributions</u>
Functions/Programs				
Governmental activities:				
Legislative	\$ 74,534	\$ -	\$ -	\$ -
General government	616,519	32,045	-	-
Public safety	1,997,610	261,091	-	-
Public works	106,344	85,185	9,243	-
Recreation and culture	85,741	1,900	-	-
Community and economic development	34,563	21,985	-	-
Total governmental activities	<u>2,915,311</u>	<u>402,206</u>	<u>9,243</u>	<u>-</u>
Business-type activities:				
Sewer	1,282,824	1,119,256	-	-
Water	<u>187,033</u>	<u>158,853</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>1,469,857</u>	<u>1,278,109</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 4,385,168</u>	<u>\$ 1,680,315</u>	<u>\$ 9,243</u>	<u>\$ -</u>

General revenues:

Taxes

State grants

Investment return

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (74,534)		\$ (74,534)
(584,474)		(584,474)
(1,736,519)		(1,736,519)
(11,916)		(11,916)
(83,841)		(83,841)
<u>(12,578)</u>		<u>(12,578)</u>
 <u>(2,503,862)</u>		 <u>(2,503,862)</u>
 -	\$ (163,568)	(163,568)
<u>-</u>	<u>(28,180)</u>	<u>(28,180)</u>
 -	<u>(191,748)</u>	<u>(191,748)</u>
<u>(2,503,862)</u>	<u>(191,748)</u>	<u>(2,695,610)</u>
 1,263,386	-	1,263,386
1,027,447	-	1,027,447
<u>87,591</u>	<u>91,911</u>	<u>179,502</u>
<u>2,378,424</u>	<u>91,911</u>	<u>2,470,335</u>
(125,438)	(99,837)	(225,275)
<u>6,631,692</u>	<u>13,879,189</u>	<u>20,510,881</u>
<u>\$ 6,506,254</u>	<u>\$ 13,779,352</u>	<u>\$ 20,285,606</u>

See notes to the financial statements

Township of Niles
BALANCE SHEET - governmental funds

March 31, 2006

	<u>General</u>	<u>Fire Operating</u>	<u>Fire Equipment</u>
ASSETS			
Cash	\$ 1,115,560	\$ 665,226	\$ 371,252
Receivables, net	204,488	56,372	22,661
Due from other funds	<u>1,621,172</u>	<u>1,533</u>	<u>-</u>
Total assets	<u>\$ 2,941,220</u>	<u>\$ 723,131</u>	<u>\$ 393,913</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payables	\$ 26,735	\$ 8,247	\$ -
Due to other funds	15,232	28,746	1,594,646
Deferred revenue	<u>25,103</u>	<u>1,166</u>	<u>290</u>
Total liabilities	<u>67,070</u>	<u>38,159</u>	<u>1,594,936</u>
Fund balances:			
Unreserved, undesignated	1,269,414	684,972	(1,201,023)
Reserved	1,604,736	-	-
Unreserved, undesignated of nonmajor funds:			
Special revenue	-	-	-
Capital project	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances (deficit)	<u>2,874,150</u>	<u>684,972</u>	<u>(1,201,023)</u>
Total liabilities and fund balances	<u>\$ 2,941,220</u>	<u>\$ 723,131</u>	<u>\$ 393,913</u>

Total fund balances

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds.

Certain assets are not considered available financial resources and, therefore, are deferred in the funds.

Net assets of *governmental activities* (page 5)

<i>Other governmental funds</i>	<i>Total</i>
\$ 885,830	\$ 3,037,868
53,191	336,712
<u>59,504</u>	<u>1,682,209</u>
<u>\$ 998,525</u>	<u>\$ 5,056,789</u>

\$ 2,853	\$ 37,835
87,563	1,726,187
<u>50,620</u>	<u>77,179</u>
<u>141,036</u>	<u>1,841,201</u>

-	753,363
-	1,604,736

615,678	615,678
<u>241,811</u>	<u>241,811</u>
<u>857,489</u>	<u>3,215,588</u>
<u>\$ 998,525</u>	<u>\$ 5,056,789</u>

\$ 3,215,588

3,213,487

<u>77,179</u>

<u>\$ 6,506,254</u>

See notes to the financial statements

Township of Niles**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND****BALANCES - governmental funds**

Year ended March 31, 2006

	<u>General</u>	<u>Fire Operating</u>	<u>Fire Equipment</u>
REVENUES			
Taxes	\$ 285,121	\$ 695,344	\$ 278,385
State grants	1,036,690	-	-
Local units of government	-	30,000	-
Fines and forfeitures	6,352	-	-
Licenses and permits	206,822	-	-
Charges for services	54,979	700	-
Interest and rentals	76,979	19,035	6,803
Other	6,299	11,791	4,750
	<u>1,673,242</u>	<u>756,870</u>	<u>289,938</u>
Total revenues			
	<u>1,673,242</u>	<u>756,870</u>	<u>289,938</u>
EXPENDITURES			
Legislative	74,534	-	-
General government	558,212	-	-
Public safety	1,058,202	769,830	-
Public works	37,893	-	-
Recreation and culture	62,421	-	-
Community and economic development	34,563	-	-
Capital outlay	24,998	-	71,561
Interest	-	-	34,500
	<u>1,850,823</u>	<u>769,830</u>	<u>106,061</u>
Total expenditures			
	<u>1,850,823</u>	<u>769,830</u>	<u>106,061</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(177,581)</u>	<u>(12,960)</u>	<u>183,877</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	115,000	18,985	-
Transfers out	(18,985)	-	-
	<u>96,015</u>	<u>18,985</u>	<u>-</u>
Total other financing sources (uses)			
	<u>96,015</u>	<u>18,985</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	(81,566)	6,025	183,877
FUND BALANCES - BEGINNING	<u>2,955,716</u>	<u>678,947</u>	<u>(1,384,900)</u>
FUND BALANCES - ENDING	<u>\$ 2,874,150</u>	<u>\$ 684,972</u>	<u>\$ (1,201,023)</u>

<i>Other governmental funds</i>	<i>Total</i>
\$ -	\$ 1,258,850
-	1,036,690
-	30,000
-	6,352
-	206,822
-	55,679
19,274	122,091
29,893	52,733
<u>49,167</u>	<u>2,769,217</u>
-	74,534
-	558,212
-	1,828,032
120,238	158,131
-	62,421
-	34,563
23,509	120,068
-	34,500
<u>143,747</u>	<u>2,870,461</u>
<u>(94,580)</u>	<u>(101,244)</u>
-	133,985
<u>(115,000)</u>	<u>(133,985)</u>
<u>(115,000)</u>	<u>-</u>
(209,580)	(101,244)
<u>1,067,069</u>	<u>3,316,832</u>
<u>\$ 857,489</u>	<u>\$ 3,215,588</u>

See notes to the financial statements

Township of Niles

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - *governmental funds* (Continued)**

Year ended March 31, 2006

Net change in fund balances - total governmental funds (page 8) \$ (101,244)

Amounts reported for *governmental activities* in the statement of
activities are different because:

Capital assets:

Additions	152,306
Provision for depreciation	(217,277)
Basis of assets transferred to County Sheriff	(49,679)

Change in deferred revenue 55,156

Long-term obligations:

Change in liability for compensated absences	<u>35,300</u>
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Change in net assets of *governmental activities* (page 6) \$ (125,438)

See notes to the financial statements

Township of Niles
STATEMENT OF NET ASSETS - proprietary funds
March 31, 2006

	Business-type activities			Governmental activities
	Enterprise funds			Internal service
	Sewer	Water	Totals	
ASSETS				
Current assets:				
Cash	\$ 2,068,953	\$ 324,268	\$ 2,393,221	\$ 17,560
Receivables	359,077	15,478	374,555	29,569
Due from other funds	557,461	-	557,461	50,969
Total current assets	<u>2,985,491</u>	<u>339,746</u>	<u>3,325,237</u>	<u>98,098</u>
Noncurrent assets:				
Receivables, non-current	334,892	-	334,892	-
Capital assets, net of accumulated depreciation	8,931,142	1,832,612	10,763,754	-
Total noncurrent assets	<u>9,266,034</u>	<u>1,832,612</u>	<u>11,098,646</u>	<u>-</u>
Total assets	<u>12,251,525</u>	<u>2,172,358</u>	<u>14,423,883</u>	<u>98,098</u>
LIABILITIES				
Current liabilities:				
Payables	79,301	778	80,079	98,098
Due to other funds	5,246	559,206	564,452	-
Total current liabilities	<u>84,547</u>	<u>559,984</u>	<u>644,531</u>	<u>98,098</u>
NET ASSETS				
Invested in capital assets	8,931,142	1,832,612	10,763,754	-
Unrestricted	3,235,836	(220,238)	3,015,598	-
Total net assets	<u>\$ 12,166,978</u>	<u>\$ 1,612,374</u>	<u>\$ 13,779,352</u>	<u>\$ -</u>

See notes to the financial statements

Township of Niles

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET

ASSETS - proprietary funds

Year ended March 31, 2006

	<i>Business-type activities</i>			<i>Govern- mental activities</i>
	<i>Enterprise funds</i>			<i>Internal service</i>
	<i>Sewer</i>	<i>Water</i>	<i>Totals</i>	
OPERATING REVENUES				
Charges for services	\$ 1,085,565	\$ 147,540	\$ 1,233,105	\$ 400,203
Other	33,691	11,313	45,004	-
Total operating revenues	1,119,256	158,853	1,278,109	400,203
OPERATING EXPENSES				
Contracted services	726,820	90,099	816,919	-
Personnel costs	195,804	29,051	224,855	-
Internal charges	66,821	7,046	73,867	-
Supplies	13,879	4,537	18,416	-
Depreciation	279,500	56,300	335,800	-
Employee benefits	-	-	-	404,535
Total operating expenses	1,282,824	187,033	1,469,857	404,535
Operating loss	(163,568)	(28,180)	(191,748)	(4,332)
NONOPERATING REVENUES (EXPENSES)				
Interest	108,328	10,966	119,294	4,332
Interest expense	-	(27,383)	(27,383)	-
Total nonoperating revenues (expenses)	108,328	(16,417)	91,911	4,332
CHANGES IN NET ASSETS	(55,240)	(44,597)	(99,837)	-
NET ASSETS - BEGINNING	12,222,218	1,656,971	13,879,189	-
NET ASSETS - ENDING	\$ 12,166,978	\$ 1,612,374	\$ 13,779,352	\$ -

See notes to the financial statements

Township of Niles

STATEMENT OF CASH FLOWS - proprietary funds

Year ended March 31, 2006

	Business-type activities			Govern- mental activities
	Enterprise funds			Internal service
	Sewer	Water	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 1,095,006	\$ 169,000	\$ 1,264,006	\$ 260,144
Payments to vendors and suppliers	(779,593)	(102,549)	(882,142)	-
Payments to employees	(143,894)	(21,675)	(165,569)	-
Payments of healthcare claims	-	-	-	(380,006)
Internal activity - payments to other funds	(46,400)	(3,970)	(50,370)	-
Net cash provided by (used in) operating activities	125,119	40,806	165,925	(119,862)
CASH FLOWS FROM NON-CAPITAL FINANCING				
Decrease in interfund balances	20,853	-	20,853	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Developer contributions	24,135	-	24,135	-
Acquisition of capital assets	(31,747)	(45,521)	(77,268)	-
Decrease in interfund balances	-	(20,853)	(20,853)	-
Interest paid	-	(27,383)	(27,383)	-
Net cash used in capital and related financing activities	(7,612)	(93,757)	(101,369)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	108,328	10,966	119,294	4,332
NET INCREASE (DECREASE) IN CASH	246,688	(41,985)	204,703	(115,530)
CASH - BEGINNING	1,822,265	366,253	2,188,518	133,090
CASH - ENDING	\$ 2,068,953	\$ 324,268	\$ 2,393,221	\$ 17,560

See notes to the financial statements

Township of Niles**STATEMENT OF CASH FLOWS - proprietary funds (Continued)**

Year ended March 31, 2006

	<u>Business-type activities</u>			<u>Govern- mental activities</u>
	<u>Enterprise funds</u>			<u>Internal service</u>
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
Reconciliation of operating loss to net cash provided by (used in) operating activities:				
Operating loss	\$ (163,568)	\$ (28,180)	\$ (191,748)	\$ (4,332)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	279,500	56,300	335,800	-
(Increase) decrease in:				
Receivables, net	(15,738)	1,635	(14,103)	(29,569)
Due from other funds	(8,512)	8,512	-	-
Increase (decrease) in:				
Payables	13,016	(537)	12,479	54,098
Due to other funds	20,421	3,076	23,497	(140,059)
Net cash provided by (used in) operating activities	<u>\$ 125,119</u>	<u>\$ 40,806</u>	<u>\$ 165,925</u>	<u>\$ (119,862)</u>

See notes to the financial statements

Township of Niles
STATEMENT OF FIDUCIARY NET ASSETS
March 31, 2006

	<u>Employee retirement plans</u>	<u>Trust and Agency</u>
ASSETS		
Cash	\$ 32,813	\$ 77,599
Investments	<u>4,441,548</u>	<u>-</u>
Total assets	<u>4,474,361</u>	<u>\$ 77,599</u>
LIABILITIES		
Due to other governmental units	-	\$ 2,074
Due to others	<u>-</u>	<u>75,525</u>
Total liabilities	<u>-</u>	<u>\$ 77,599</u>
NET ASSETS		
Held in trust for employees' pension benefits	<u>\$ 4,474,361</u>	

See notes to the financial statements

Township of Niles

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended March 31, 2006

	<u>Employee retirement plans</u>
ADDITIONS	
Contributions:	
Employer	\$ 148,307
Participants	<u>78,835</u>
Total contributions	227,142
Investment return	<u>312,380</u>
Total additions	539,522
DEDUCTIONS	
Benefits paid	<u>348,479</u>
NET INCREASE	191,043
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning	<u>4,283,318</u>
Ending	<u><u>\$ 4,474,361</u></u>

See notes to financial statements

Township of Niles
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Niles, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The Township is governed by an elected board of trustees. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Township. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Township exercises oversight responsibility.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. The effect of all interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Operating Fund accounts for special voted taxes levied to support operating costs of fire protection and response services.

The Fire Equipment Fund accounts for special voted taxes levied to finance capital outlays used in operating costs of fire protection and response services.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the operation of the Township's sewage system and treatment plant.

The Water Fund accounts for the operation of the Township's water mains and pumping facilities.

Additionally, the government reports the following fund types:

The internal service fund accounts for the accumulation and allocation of self-funded healthcare claims program to various Township departments.

The Trust and Agency Fund accounts for the collection and disbursements of delinquent taxes and deposits due to other units and individuals.

The pension trust funds account for assets held to provide retirement benefits to eligible participants and their beneficiaries.

Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The government has elected not to follow subsequent private-sector standards.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits and investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

ii) Receivables and payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are considered to be fully collectible.

iii) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

iii) Capital assets (continued):

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 50 years
Furniture, fixtures, and equipment	5 - 15 years
Vehicles	5 - 15 years
Sewer and water systems	50 years

iv) Compensated absences (vacation and sick leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. However, such benefits must be used within ninety (90) days of year end. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the Township. Vested compensated absences are accrued when earned in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

v) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. The Township incurred the following significant budget variances:

<u>Fund</u>	<u>Function</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
General	Capital outlay	\$ 21,200	\$ 24,998	\$ 3,798
Fire Operating	Public safety	752,699	769,830	17,131
Fire Equipment	Capital outlay	60,500	71,561	11,061

Deficit equity positions - As of March 31, 2006, the Township reported the following fund equity deficits:

The deficit in the Fire Equipment Fund of \$1,201,023, arose from the use of a temporary advance from the General Fund to partially finance a new fire station. The Township intends for the fund to repay the advance over the next five years using the special voted taxes.

The deficit in the unrestricted net assets of the Water Fund of \$220,038, arose from financing capital outlays from a temporary advance from the Sewer Fund. The Water Fund is to repay the advance in annual installments of \$48,236, including interest at 5.0%, through September 2021.

Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS:

A reconciliation of cash and investments to the Township's deposits and investments, as shown in the government-wide financial statements and in the statement of fiduciary net assets, are as follows:

	<u>Fiduciary net assets:</u>				
	<u>Govern- mental activities</u>	<u>Business type activities</u>	<u>Employee retirement plans</u>	<u>Trust and Agency</u>	<u>Total</u>
Cash	\$ 3,055,428	\$ 2,393,221	\$ 32,813	\$ 77,599	\$ 5,559,061
Investments	<u>-</u>	<u>-</u>	<u>4,441,548</u>	<u>-</u>	<u>4,441,548</u>
	<u>\$ 3,055,428</u>	<u>\$ 2,393,221</u>	<u>\$ 4,474,361</u>	<u>\$ 77,599</u>	<u>\$ 10,000,609</u>
Deposits					\$ 5,034,444
Cash on hand					600
Investments					<u>4,965,565</u>
					<u>\$ 10,000,609</u>

a) Deposits:

Deposits are carried at cost and are maintained at various financial institutions in the name of the Township. Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority.

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of March 31, 2006, \$4,127,940 of the Township's bank balances of \$5,185,940 was exposed to custodial credit risk because it was uninsured. Of the total bank balances, \$4,224,504 was maintained with one financial institution.

The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

b) Investments:

State statutes authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, within three highest rate classifications by at least two national rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; and e) mutual funds holding investments allowable by state statute. Not more than 50% of any fund may be invested in commercial paper. State statutes authorize defined benefit plan trusts to invest not more than 65% in common stocks and no more than 5% in real estate holdings. Participant directed defined contribution plans are not subject to limitations as to the nature and extent of holdings.

Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (continued):

b) Investments (continued):

Investments as of March 31, 2006, consist of the following (reported at fair value):

Police and Fire Pension Trust Fund:	
PIMCO Total Return Fund-D	\$ 984,574
PIMCO Low Duration Fund-D	661,996
Vanguard Long-term Bond Index Fund	538,377
American Growth Fund of America	410,189
T Rowe Price Equity Income Fund #71	330,337
Other funds	<u>768,070</u>
	3,693,543
General Government Pension Trust Fund:	
Pooled separate accounts with insurance company	<u>748,005</u>
Total investments of pension trust funds	4,441,548
MBIA Michigan CLASS	400,000
US government agencies	<u>124,017</u>
Total investments	<u>\$4,965,565</u>

Interest rate risk:

The Township has not established an investment policy that addresses interest rate risk. Of the Township's holdings, only the US government agencies holdings are subject to interest rate risk disclosure. As of March 31, 2006, \$96,625 is due within one year and \$24,392 is due between one and five years.

Credit risk:

The Township has not established an investment policy that addresses credit risk. The pooled separate accounts with insurance company and the MBIA Michigan CLASS holding are not rated as to credit risk. The remaining investment holdings had the following credit risk rating.

	<u>Fair value</u>	<u>Rating</u>	<u>Source</u>
PIMCO Total Return Fund-D	\$ 984,574	5 star	Morningstar
Other funds	111,534	5 star	Morningstar
PIMCO Low Duration Fund-D	661,996	4 star	Morningstar
Vanguard Long-term Bond Index Fund	538,377	4 star	Morningstar
American Growth Fund of America	410,189	4 star	Morningstar
T Rowe Price Equity Income Fund # 71	330,337	4 star	Morningstar
Other funds	450,115	4 star	Morningstar
Other funds	206,421	AAA	S & P
US government securities	124,017	AAA	S & P

Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (continued):

b) Investments (continued):

Concentration of credit risk:

The Township has not established an investment policy that addresses concentration of credit risk. With exception as to obligations issued, assumed or guaranteed by the United States, the State limits investments in a single issuer to no more than 5% of total portfolio assets. As of March 31, 2006, no single holding within the Police and Fire Pension Trust Fund represented more than 5% of the total fund.

Custodial credit risk:

The Township has not established an investment policy that addresses custodial credit risk. Of the Township's holdings, only the US government agencies holdings are subject to custodial credit risk disclosure. All U.S. government agencies are uninsured, unregistered and held by the Township's brokerage firm.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major and non-major funds, in the aggregate, are as follows. All amounts shown are considered fully collectible.

	<u>Taxes</u>	<u>Accounts</u>	<u>Inter- governmental</u>	<u>Special assessments</u>	<u>Total</u>
Governmental funds:					
General	\$ 27,232	\$ 17,533	\$ 159,723	\$ -	\$ 204,488
Fire Operating	56,372	-	-	-	56,372
Fire Equipment	22,661	-	-	-	22,661
Other governmental funds	-	-	-	53,191	53,191
	<u>\$ 106,265</u>	<u>\$ 17,533</u>	<u>\$ 159,723</u>	<u>\$ 53,191</u>	<u>\$ 336,712</u>
Proprietary funds:					
Sewer	\$ -	\$ 331,169	\$ -	\$ 362,800	\$ 693,969
Water	-	15,478	-	-	15,478
	<u>\$ -</u>	<u>\$ 346,647</u>	<u>\$ -</u>	<u>\$ 362,800</u>	<u>\$ 709,447</u>
Amounts due beyond one year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 334,892</u>	<u>\$ 334,892</u>
Internal service fund	<u>\$ -</u>	<u>\$ 29,569</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,569</u>

Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity of the Township for the current year was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Depreciable assets:				
Building	\$ 2,309,274	\$ 71,561	\$ -	\$ 2,380,835
Land improvements	344,413	10,762	-	355,175
Vehicles	1,394,338	-	280,676	1,113,662
Equipment	479,266	6,707	42,179	443,794
Streets	-	63,276	-	63,276
Subtotal	<u>4,527,291</u>	<u>152,306</u>	<u>322,855</u>	<u>4,356,742</u>
Less accumulated depreciation for:				
Building	346,783	38,017	-	384,800
Land improvements	189,849	23,320	-	213,169
Vehicles	540,508	113,690	241,931	412,267
Equipment	214,358	40,984	31,245	224,097
Streets	-	1,266	-	1,266
Subtotal	<u>1,291,498</u>	<u>217,277</u>	<u>273,176</u>	<u>1,235,599</u>
Total capital assets being depreciated, net	3,235,793	(64,971)	49,679	3,121,143
Other assets - land	<u>92,344</u>	<u>-</u>	<u>-</u>	<u>92,344</u>
Governmental activities capital assets, net	<u>\$ 3,328,137</u>	<u>\$ (64,971)</u>	<u>\$ 49,679</u>	<u>\$ 3,213,487</u>
Business-type activities:				
Sewer system	\$ 13,840,170	\$ 31,747	\$ -	\$ 13,871,917
Water system	<u>2,792,482</u>	<u>45,521</u>	<u>-</u>	<u>2,838,003</u>
Subtotal	<u>16,632,652</u>	<u>77,268</u>	<u>-</u>	<u>16,709,920</u>
Less accumulated depreciation for:				
Sewer system	4,661,275	279,500	-	4,940,775
Water system	<u>949,091</u>	<u>56,300</u>	<u>-</u>	<u>1,005,391</u>
Subtotal	<u>5,610,366</u>	<u>335,800</u>	<u>-</u>	<u>5,946,166</u>
Business-type activities capital assets, net	<u>\$ 11,022,286</u>	<u>\$ (258,532)</u>	<u>\$ -</u>	<u>\$ 10,763,754</u>

Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

Depreciation expense was charged to governmental activities programs of the Township as follows:

General government	\$ 31,069
Public safety	151,399
Public works	11,489
Recreation and culture	<u>23,320</u>
	<u>\$217,277</u>

NOTE 6 - PAYABLES:

Payables as of year end for the government's individual major and non-major funds, in the aggregate, are as follows.

	<u>Accounts</u>	<u>Payroll</u>	<u>Health claims</u>	<u>Total</u>
Governmental funds:				
General	\$ 19,888	\$ 6,847	\$ -	\$ 26,735
Fire Operating	1,436	6,811	-	8,247
Other governmental funds	<u>2,853</u>	<u>-</u>	<u>-</u>	<u>2,853</u>
Total	<u>\$ 24,177</u>	<u>\$ 13,658</u>	<u>\$ -</u>	<u>\$ 37,835</u>
Business-type funds:				
Sewer	\$ 77,075	\$ 2,226	\$ -	\$ 79,301
Water	<u>445</u>	<u>333</u>	<u>-</u>	<u>778</u>
Total	<u>\$ 77,520</u>	<u>\$ 2,559</u>	<u>\$ -</u>	<u>\$ 80,079</u>
Internal service fund	<u>\$ 398</u>	<u>\$ -</u>	<u>\$ 97,700</u>	<u>\$ 98,098</u>

NOTE 7- DEFERRED REVENUE:

Deferred revenue recorded in governmental funds as of March 31, 2006, represents the portion of the following financial resources that are considered unavailable to liquidate liabilities of the current period.

Property taxes	\$ 16,151
Charges for services	10,408
Special assessments	<u>50,620</u>
Total	<u>\$ 77,179</u>

Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - LONG-TERM OBLIGATIONS:

Long-term obligations consist solely of the liability for compensated absences. Changes in the liability during the year ended March 31, 2006, were follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Governmental activities:				
Compensated absences	\$ 35,300	\$ -	\$ 35,300	\$ -

NOTE 9 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The composition of interfund balances as of March 31, 2006, is as follows:

<u>Fund</u>	<u>Interfund receivable</u>	<u>Fund</u>	<u>Interfund payable</u>
General	\$ 1,621,172	Fire Equipment	\$ 1,594,646
		Other governmental funds	<u>26,526</u>
			<u>1,621,172</u>
Fire Operating	1,533	Other governmental funds	<u>1,533</u>
Other governmental funds	59,504	Other governmental funds	<u>59,504</u>
Sewer	557,461	Water	<u>557,461</u>
Health Claims	<u>50,969</u>	General	15,232
		Fire Operating	28,746
		Sewer	5,246
		Water	<u>1,745</u>
			<u>50,969</u>
	<u>\$ 2,290,639</u>		<u>\$ 2,290,639</u>

Aside from the amounts due to the Health Claims Fund (an internal service fund), all other amounts due from other funds represent advances to other funds to finance operations or capital outlays. The amounts due to the Health Claims Fund represent the cumulative underbilling for allocated costs.

Interfund transfers consisted of a transfer of \$18,985 from General Fund to Fire Operating Fund in support of operating costs, and a transfer of \$115,000 from Budget Stabilization Fund to General Fund, representing a return of excess monies placed in the Budget Stabilization Fund.

Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - RETIREMENT PLANS:

a) Police and Fire Pension Plan:

i) Plan description:

The Police and Fire Pension Plan (PFPP) is a single-employer defined benefit pension plan administered by the Township. The PFPP provides retirement, disability, and death benefits to eligible police and fire department members and their beneficiaries. Cost of living adjustments are provided to members and beneficiaries at the discretion of the Township. Separately issued financial statements of this plan are not prepared.

ii) Funding policy:

The contribution requirements of plan members and the Township are established and may be amended by Township resolution. Plan members are required to contribute 7.0% of their annual covered salary. In 2006, member contributions totaled \$39,824. The Township is required to contribute at an actuarially determined rate (currently 20.08% of annual covered payroll).

iii) Annual Pension Cost and Net Pension Obligation:

The Township's annual pension cost for the year ended March 31, 2006, was \$102,671. The annual required contribution was determined as part of the April 1, 2005, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a) 7.5% investment rate of return and b) projected payroll increases of 5.0%. The actuarial value of assets is based on current fair value. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open period of 15 years.

Three year trend information

<i>Fiscal year ended March 31,</i>	<i>Annual pension cost (APC)</i>	<i>Percentage of APC contributed</i>	<i>Net pension obligation</i>
2004	\$ 43,570	100%	\$ -
2005	\$ 115,356	100%	\$ -
2006	\$ 102,671	100%	\$ -

b) General Government Pension Plan:

The General Government Pension Plan (GGPP) is a single-employer defined contribution pension plan administered by the Township. The GGPP provides retirement benefits to all full-time employees other than those covered by the PFPP. Plan provisions and contribution requirements are established and may be amended by the Township Board. Currently, the Township contributes 9.0% of covered salary. Plan members are required to contribute 5.0% of covered salary and may make voluntary contributions subject to IRS limitations. The employer and employee contributions totaled \$45,636 and \$39,011, respectively, for the year ended March 31, 2006.

Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 - RISK MANAGEMENT:

The Township is exposed to various risks of loss to general liability, property and casualty, workers' compensation, and employee health and medical claims. The risks of loss arising from general liability up to \$5,000,000, building contents and workers' compensation, and casualty are managed through purchased commercial insurance. For all such risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

The Township is a co-defendant, along with the County of Berrien and Berrien County Sheriff Leonard Bliley in an action filed by two former public safety employees of the Township. The former employees are asserting that they are entitled to compensation, both past and future wages and benefits, when they lost their employment as a result of the dissolution of the Township's Police Department. Potential damages claims is \$250,000, however, a more reasonable range is between \$50,000 to \$100,000. The suit has been through the discovery stage and is scheduled for trial in December 2006. The Township and outside counsel believe that there is no merit to the suit and intend to defend it vigorously. Based on the facts known to date, it is not possible to determine the likelihood of an unfavorable outcome, and, accordingly, no provision for any liability that may result has been recorded in the accompanying financial statements.

The Township has established a partially self-funded employee health and medical claims plan for all full-time employees. The plan provides health benefits up to certain annual and life-time stop loss limits. The Township has purchased commercial insurance for claims in excess of these limits. Settled claims of the past three years have not exceeded the commercial coverage. The claims liability of \$97,700 reported at March 31, 2006, is based on estimates of known claims and actuarial computations of incurred but not reported claims. Changes in the claims liability amount for the past two years were:

	<u>2006</u>	<u>2005</u>
Balance - beginning	\$ 44,000	\$ 12,065
Current year claims and changes in estimates	404,235	330,201
Claim payments	<u>(350,535)</u>	<u>(298,266)</u>
Balance - ending	<u>\$ 97,700</u>	<u>\$ 44,000</u>

NOTE 12 - BUILDING INSPECTION ACTIVITIES:

A summary of building inspection fees and direct costs is as follows:

Revenues	\$ 152,997
Expenses	<u>211,242</u>
Deficiency of revenues over expenses	<u>\$ (58,245)</u>

Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 13 - SUBSEQUENT EVENTS:

a) Debt issued:

In June 2006, the Township issued \$1,795,000 2006 Water Improvement Project bonds, a limited tax general obligation debt, to finance water system improvements in a certain special assessment district. The bonds will mature in 2008 through 2021, and are to be paid from collections of special assessments and related interest thereon. The bonds are secured by the full faith and credit of the Township.

b) Change in legal entity:

In June 2006, the Township Board approved a resolution to become a charter township. As a part of the decision to become a charter township, the Board approved a change in its fiscal year, from March 31 to December 31. Accordingly, the financial statements of the next fiscal year will be for the short year (nine months) ending December 31, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Niles

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended March 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 278,754	\$ 278,754	\$ 285,121	\$ 6,367
State grants	1,037,000	1,037,000	1,036,690	(310)
Fines and forfeitures	12,000	12,000	6,352	(5,648)
Licenses and permits	264,300	264,300	206,822	(57,478)
Charges for services	32,050	32,050	54,979	22,929
Interest and rentals	45,900	45,900	76,979	31,079
Other	15,125	15,125	6,299	(8,826)
Total revenues	<u>1,685,129</u>	<u>1,685,129</u>	<u>1,673,242</u>	<u>(11,887)</u>
EXPENDITURES				
Legislative	<u>72,709</u>	<u>78,709</u>	<u>74,534</u>	<u>4,175</u>
General government:				
Supervisor	92,602	96,893	103,585	(6,692)
Elections	8,205	8,205	7,703	502
Assessor	75,947	79,307	84,514	(5,207)
Clerk	76,130	80,130	85,138	(5,008)
Board of Review	821	1,043	1,083	(40)
Treasurer	100,843	105,443	110,322	(4,879)
Hall and grounds	132,765	121,714	107,966	13,748
Other	66,500	66,500	57,901	8,599
Total general government	<u>553,813</u>	<u>559,235</u>	<u>558,212</u>	<u>1,023</u>
Public safety:				
Police department	739,750	866,099	814,665	51,434
Building inspection	193,010	212,021	211,242	779
Ordinance enforcement	30,175	30,075	32,295	(2,220)
Total public safety	<u>962,935</u>	<u>1,108,195</u>	<u>1,058,202</u>	<u>49,993</u>
Public works:				
Highways and streets	30,200	39,200	37,731	1,469
Street lighting	3,000	3,000	-	3,000
Drains	300	300	162	138
Total public works	<u>33,500</u>	<u>42,500</u>	<u>37,893</u>	<u>4,607</u>

Township of Niles

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended March 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Recreation and culture	\$ 68,410	\$ 68,410	\$ 62,421	\$ 5,989
Community and economic development:				
Planning and zoning	18,780	26,562	29,299	(2,737)
Community development	5,976	6,240	5,264	976
Total community and economic development	24,756	32,802	34,563	(1,761)
Capital outlay	21,200	21,200	24,998	(3,798)
Total expenditures	1,737,323	1,911,051	1,850,823	60,228
DEFICIENCY OF REVENUES OVER EXPENDITURES	(52,194)	(225,922)	(177,581)	48,341
OTHER FINANCING SOURCES (USES)				
Transfer from Budget Stabilization Fund	-	115,000	115,000	-
Transfer to Fire Operating Fund	(47,713)	(18,985)	(18,985)	-
Total other sources (uses)	(47,713)	96,015	96,015	-
NET CHANGES IN FUND BALANCES	(99,907)	(129,907)	(81,566)	48,341
FUND BALANCES - BEGINNING	2,955,716	2,955,716	2,955,716	-
FUND BALANCES - ENDING	\$ 2,855,809	\$ 2,825,809	\$ 2,874,150	\$ 48,341

Township of Niles**BUDGETARY COMPARISON SCHEDULE - Fire Operating Fund**

Year ended March 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 647,506	\$ 647,506	\$ 695,344	\$ 47,838
Local units of government	30,000	30,000	30,000	-
Charges for services	1,000	1,000	700	(300)
Interest and rentals	2,700	2,700	19,035	16,335
Other	<u>5,580</u>	<u>7,780</u>	<u>11,791</u>	<u>4,011</u>
Total revenues	686,786	688,986	756,870	67,884
EXPENDITURES				
Public safety	<u>734,499</u>	<u>752,699</u>	<u>769,830</u>	<u>(17,131)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(47,713)	(63,713)	(12,960)	50,753
OTHER FINANCING SOURCES				
Transfer from General Fund	<u>47,713</u>	<u>18,985</u>	<u>18,985</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	-	(44,728)	6,025	50,753
FUND BALANCES - BEGINNING	<u>678,947</u>	<u>678,947</u>	<u>678,947</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 678,947</u>	<u>\$ 634,219</u>	<u>\$ 684,972</u>	<u>\$ 50,753</u>

Township of Niles**BUDGETARY COMPARISON SCHEDULE - Fire Equipment Fund**

Year ended March 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 258,987	\$ 258,987	\$ 278,385	\$ 19,398
Interest and rentals	2,000	2,000	6,803	4,803
Other	<u>-</u>	<u>-</u>	<u>4,750</u>	<u>4,750</u>
Total revenues	<u>260,987</u>	<u>260,987</u>	<u>289,938</u>	<u>28,951</u>
EXPENDITURES				
Capital outlay	60,500	60,500	71,561	(11,061)
Interest	<u>34,500</u>	<u>34,500</u>	<u>34,500</u>	<u>-</u>
Total expenditures	<u>95,000</u>	<u>95,000</u>	<u>106,061</u>	<u>(11,061)</u>
NET CHANGES IN FUND BALANCES	165,987	165,987	183,877	17,890
FUND BALANCES - BEGINNING	<u>(1,384,900)</u>	<u>(1,384,900)</u>	<u>(1,384,900)</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ (1,218,913)</u>	<u>\$ (1,218,913)</u>	<u>\$ (1,201,023)</u>	<u>\$ 17,890</u>

Township of Niles**REQUIRED SUPPLEMENTARY INFORMATION****Schedule of funding progress for Police and Fire Pension Plan**

<i>Actuarial valuation date April 1,</i>	<i>Actuarial value of assets (a)</i>	<i>Actuarial Accrued Liability (AAL) - Entry age (b)</i>	<i>Unfunded AAL (UAAL) (b-a)</i>	<i>Funded ratio (a/b)</i>	<i>Covered payroll (c)</i>	<i>UAAL as a percentage of covered payroll (b-a)/c)</i>
1992	\$ 1,913,611	\$ 2,148,405	\$ 234,794	89.1%	\$ 503,378	46.6%
1997	2,671,899	2,805,804	133,905	95.2%	526,516	25.4%
1999	3,320,380	3,086,346	(234,034)	107.6%	553,940	-42.2%
2001	3,468,445	3,485,349	16,904	99.5%	583,909	2.9%
2003	3,127,745	3,642,748	515,003	85.9%	424,622	121.3%
2005	3,556,256	4,020,181	463,925	88.5%	552,423	84.0%

SUPPLEMENTARY INFORMATION

Township of Niles**COMBINING BALANCE SHEET - other governmental funds**

March 31, 2006

	Special revenue funds			
	<u>Budget Stabilization</u>	<u>Revolving Improvement</u>	<u>Special Assessment</u>	<u>Drains</u>
ASSETS				
Cash	\$ 153,482	\$ 125,680	\$ 176,149	\$ 23,597
Receivables, net	-	-	53,191	-
Due from other funds	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 153,482</u>	<u>\$ 125,680</u>	<u>\$ 229,340</u>	<u>\$ 23,597</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	\$ -	\$ -	\$ 2,853	\$ -
Due to other funds	26,526	-	61,037	-
Deferred revenue	-	-	50,620	-
	<u>-</u>	<u>-</u>	<u>50,620</u>	<u>-</u>
Total liabilities	26,526	-	114,510	-
Fund balances:				
Unreserved, undesignated	<u>126,956</u>	<u>125,680</u>	<u>114,830</u>	<u>23,597</u>
Total liabilities and fund balances	<u>\$ 153,482</u>	<u>\$ 125,680</u>	<u>\$ 229,340</u>	<u>\$ 23,597</u>

<u>Financing</u>	<u>Totals</u>	<u>Capital project fund</u>	<u>Total other governmental funds</u>
\$ 165,111	\$ 644,019	\$ 241,811	\$ 885,830
-	53,191	-	53,191
<u>59,504</u>	<u>59,504</u>	<u>-</u>	<u>59,504</u>
<u>\$ 224,615</u>	<u>\$ 756,714</u>	<u>\$ 241,811</u>	<u>\$ 998,525</u>
\$ -	\$ 2,853	\$ -	\$ 2,853
-	87,563	-	87,563
<u>-</u>	<u>50,620</u>	<u>-</u>	<u>50,620</u>
-	141,036	-	141,036
<u>224,615</u>	<u>615,678</u>	<u>241,811</u>	<u>857,489</u>
<u>\$ 224,615</u>	<u>\$ 756,714</u>	<u>\$ 241,811</u>	<u>\$ 998,525</u>

Township of Niles**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - other governmental funds**

Year ended March 31, 2006

	Special revenue funds			
	<u>Budget Stabilization</u>	<u>Revolving Improvement</u>	<u>Special Assessment</u>	<u>Drains</u>
REVENUES				
Interest	\$ -	\$ 3,830	\$ 3,759	\$ 840
Other	-	-	29,893	-
Total revenues	-	3,830	33,652	840
EXPENDITURES				
Public works	-	-	101,745	18,493
Capital outlay	-	9,035	-	-
Total expenditures	-	9,035	101,745	18,493
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(5,205)	(68,093)	(17,653)
OTHER USES				
Transfers to other funds	(115,000)	-	-	-
NET CHANGES IN FUND BALANCES	(115,000)	(5,205)	(68,093)	(17,653)
FUND BALANCES - BEGINNING	241,956	130,885	182,923	41,250
FUND BALANCES - ENDING	<u>\$ 126,956</u>	<u>\$ 125,680</u>	<u>\$ 114,830</u>	<u>\$ 23,597</u>

<i>Financing</i>	<i>Totals</i>	<i>Capital project fund</i>	<i>Total other governmental funds</i>
\$ 3,401	\$ 11,830	\$ 7,444	\$ 19,274
-	29,893	-	29,893
<u>3,401</u>	<u>41,723</u>	<u>7,444</u>	<u>49,167</u>
-	120,238	-	120,238
-	9,035	14,474	23,509
<u>-</u>	<u>129,273</u>	<u>14,474</u>	<u>143,747</u>
3,401	(87,550)	(7,030)	(94,580)
<u>-</u>	<u>(115,000)</u>	<u>-</u>	<u>(115,000)</u>
3,401	(202,550)	(7,030)	(209,580)
<u>221,214</u>	<u>818,228</u>	<u>248,841</u>	<u>1,067,069</u>
<u>\$ 224,615</u>	<u>\$ 615,678</u>	<u>\$ 241,811</u>	<u>\$ 857,489</u>

Township of Niles

COMBINING STATEMENT OF FIDUCIARY NET ASSETS - *pension trust funds*

March 31, 2006

	<u>General Government Pension Plan</u>	<u>Police and Fire Pension Plan</u>	<u>Totals</u>
ASSETS			
Cash	\$ 12,718	\$ 20,095	\$ 32,813
Investments	<u>748,005</u>	<u>3,693,543</u>	<u>4,441,548</u>
Total assets	<u>\$ 760,723</u>	<u>\$ 3,713,638</u>	<u>\$ 4,474,361</u>
NET ASSETS			
Reserved for employees' pension benefits	<u>\$ 760,723</u>	<u>\$ 3,713,638</u>	<u>\$ 4,474,361</u>

Township of Niles
COMBINING STATEMENT OF CHANGES IN
FIDUCIARY NET ASSETS - *pension trust funds*
Year ended March 31, 2006

	<u>General Government Pension Plan</u>	<u>Police and Fire Pension Plan</u>	<u>Totals</u>
ADDITIONS			
Contributions:			
Employer	\$ 45,636	\$ 102,671	\$ 148,307
Participants	<u>39,011</u>	<u>39,824</u>	<u>78,835</u>
Total contributions	84,647	142,495	227,142
Investment return	<u>66,804</u>	<u>245,576</u>	<u>312,380</u>
Total additions	151,451	388,071	539,522
DEDUCTIONS			
Benefits paid	<u>107,439</u>	<u>241,040</u>	<u>348,479</u>
NET INCREASE	44,012	147,031	191,043
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Beginning	<u>716,711</u>	<u>3,566,607</u>	<u>4,283,318</u>
Ending	<u><u>\$ 760,723</u></u>	<u><u>\$ 3,713,638</u></u>	<u><u>\$ 4,474,361</u></u>

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**Board of Trustees
Township of Niles, Michigan**

In planning and performing our audit of the financial statements of Township of Niles, Michigan, for the year ended March 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control. Our assessment of the internal control was limited to obtaining an understanding of the internal control sufficient to plan the audit and did not include tests of controls. However, we noted certain matters involving the internal control and its operations that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. (See attached schedule of comments and recommendations.) Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, misstatements due to error or fraud may occur and not be detected by such controls.

This report is intended for the information and use of the Board of Trustees, management, and others within the Township, and Michigan Department of Treasury, and is not intended to be, and should not be, used by anyone other than these specified parties.

Siegfried Crandall P.C.

September 5, 2006

SCHEDULE OF COMMENTS AND RECOMMENDATIONS

Finding - The general ledger does not present an up-to-date record of the assets, liabilities, and equity of certain funds of the Township.

Causes:

- a. Certain transactions of the Trust and Agency Fund, Tax Collection Fund, Fire and Police Pension Fund, and General Government Pension Plan Fund have not been recorded.
- b. Purchases and sales of certificates of deposits have not been properly recorded.

Effect: The carrying value of assets, liabilities, and fund equity may be incorrect.

Recommendations:

- a. Recording errors identified when performing the monthly bank reconciliation should be corrected in a timely manner.
- b. Record activity of the pension plan investments based on the periodic investment account statements.
- c. Record the purchase of each certificate of deposit as an asset, using its face value; any premium/discount or accrued interest should be posted to investment income. When the certificate is sold, reduce the asset for the face value of the specific certificate.

Finding - Utility funds do not reflect the current balance of service revenue receivables.

Cause: End of month receivable balances are not reconciled to underlying detail schedules, and earned but unbilled charges are not recorded.

Effect: The financial position of each utility fund is understated; recorded utility receivable balances cannot be reconciled to a meaningful number; and, operating revenue is misstated.

Recommendations:

- a. Policies and procedures should be in place to assure that a reconciliation occurs periodically between the amounts reported in the general ledger and the relevant end of period reports of the utility billing department. Differences should be identified and corrected. The reasons for such differences should be evaluated for possible future prevention and early detection.
- b. Outstanding balances that are removed and transferred to the tax roll for collection should be reclassified as amounts due from tax collections, rather than as a negative revenue. Amounts received from the tax collection process should be credited against the due from account, rather than as new revenue. This step becomes necessary with the change in fiscal year, from March to December, because the transfer to tax roll will occur in one fiscal year and the collection will occur in the next fiscal year.

SCHEDULE OF COMMENTS AND RECOMMENDATIONS (Continued)

Finding - The disbursement checking account, which maintains a balance greater than zero, is not recorded in the general ledger.

Cause: The account was considered an imprest account for which the reconciled balance would be zero.

Effect: The assets of one or more funds are understated, while the corresponding expenditures/expenses are overstated, for amounts transferred in excess of checks written.

Recommendation: Record the current reconciled balance in an asset account in the General Fund. There should be a decision as to what desired/required minimum fixed balance will be maintained. Thereafter, the bank reconciliation should be between the bank balance and the fixed balance. Amounts to be transferred in from any fund should be reduced for the effect of voided or cancelled checks so that the fixed balance is maintained and that recorded expenditures/expenses reflect actual cash outlays to vendors and suppliers.